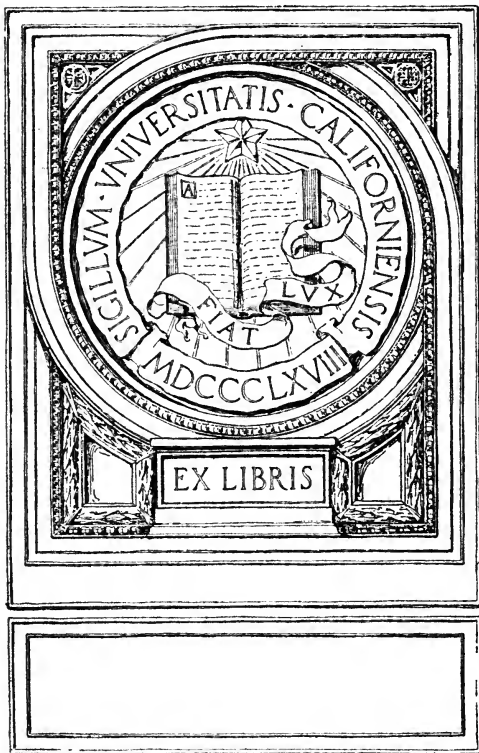


1051
K45

01000

GIFT OF

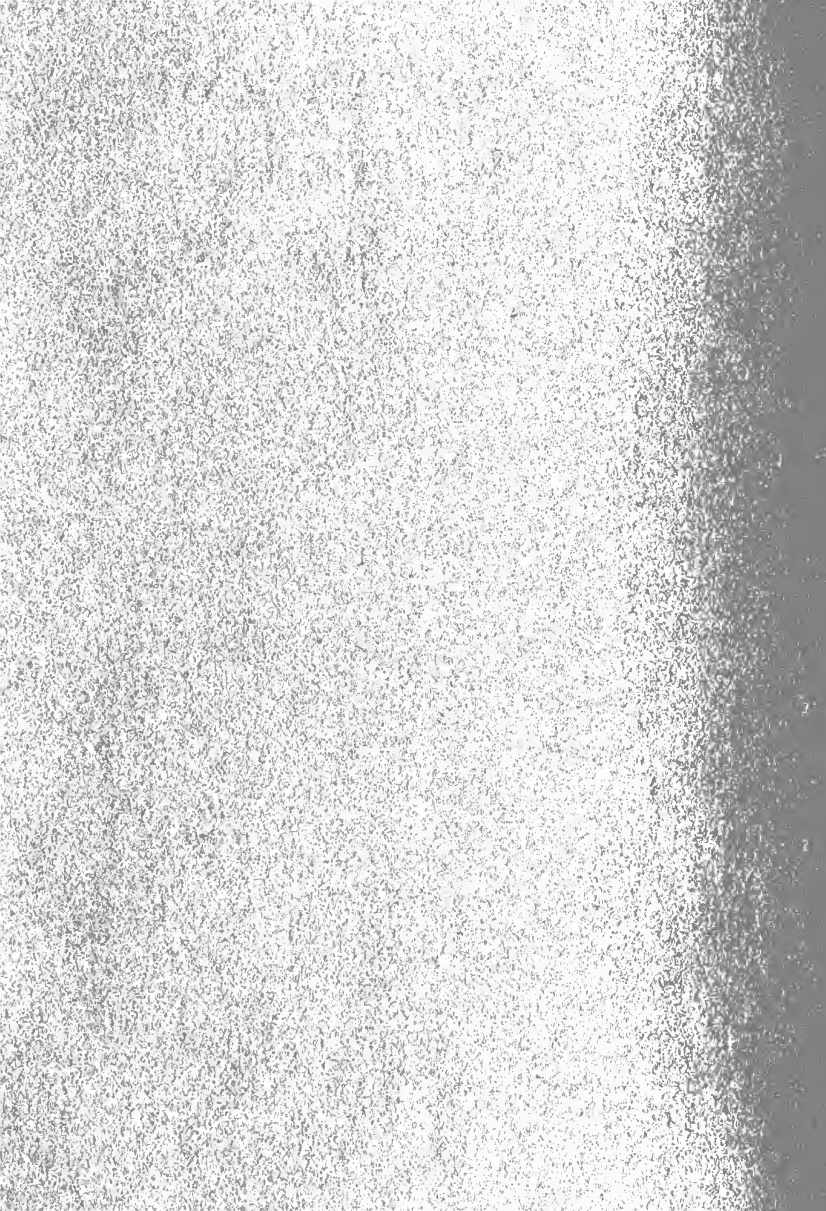


THE IMPORTANCE OF COMPETITION BETWEEN RAILWAYS

BY

EDWARD DUDLEY KENNA







**THIS BOOK IS DUE ON THE LAST DATE
STAMPED BELOW**

AN INITIAL FINE OF 25 CENTS

**WILL BE ASSESSED FOR FAILURE TO RETURN
THIS BOOK ON THE DATE DUE. THE PENALTY
WILL INCREASE TO 50 CENTS ON THE FOURTH
DAY AND TO \$1.00 ON THE SEVENTH DAY
OVERDUE.**

APR 1 1937

APR 15 37

THE IMPORTANCE OF COMPETITION BETWEEN RAILWAYS

BY

EDWARD DUDLEY KENNA



7/23/19

HE105)
K45

anon

Digitized by the Internet Archive
in 2007 with funding from
Microsoft Corporation

TO THE
LIBRARY OF

CONTENTS

- I.—The Collapse of 1917**
- II.—The Predicament of 1919**
- III.—The Importance of Competition**
- IV.—The Triangle—Labor, Capital and Commerce**

“The highways of nations are the measure of their civilization. Without roads there can be no society, government, commerce or intelligence. In exact proportion to the abundance and excellence of highways (and in exact proportion to the cost of transportation on those highways), are the exchanges of services between men, the communication of thought, the augmentation of wealth, the growth of comfort, the development and consolidation of the civilized States.” (United States Government Report on Pacific Railways; 1869.)

I

THE COLLAPSE OF 1917

IF one will trace the course of a public policy that has failed he can usually find the forks at which the wrong turn was taken; therefore, when a public policy becomes ineffective, change should be preceded by a search for the causes of failure. To comprehend the conditions which required the Government to commandeer the railways in December, 1917, it is necessary to go back to the beginning of our railways.

In that beginning when the railed way was an experiment our Governments, State and Federal, were eager and willing that private capital should incur all the hazards of its development; and, when its utility was demonstrated, these Governments, being poor, induced investors to build the railways conformably to a public policy under which such investors, incorporated, were not only to build, and, to own, but, also to operate

the railways. Inconsistently, these privately owned and operated railways were declared to be highways. This incongruous arrangement sprang from the assumption that the rail thoroughfares were to be a substitute for the common highways, which experience had shown might be owned by private corporations. Therefore, early railway legislation developed on the general lines prescribed for turnpikes and toll-roads, ignoring that it is not feasible for every person who may own a locomotive and a car to use a railway in common with other like users. The seriousness of this mistake—which was soon corrected in practice—lies in the erroneous public view of the railway it induced without correcting: the public failed to see that the State was creating a private monopoly.

The owners, of course, realized that everyone was to have the right to ship and travel over their railways, and the public were aware that they must pay for the exercise of such right; but where men must use a thing controlled by a private monopoly, such as water, light, or a public highway, an unending struggle between owners and users

is inevitable. This affords, perhaps, a strong, yet not necessarily a controlling argument, in favor of ownership by the State of all public utilities. However, the need for railways grew so fast that their builders were everywhere welcomed as benefactors, and he, who prior to 1870 would have assaulted the basis of their credit would have been regarded as a public enemy. But when almost every town had its railway and earlier needs were satisfied and forgotten, the owners became as unpopular as absentee landlords. Why this happened and to what extent the owners themselves were responsible for the change is not pertinent to the subject we are discussing, which is a study of causes, not an inquiry into the responsibility for their occurrence.

Every snapshotter of the railway question is familiar with the "Granger Movement," yet not all profound students of it realize that its consequences produced the break-down of 1917—a break-down we shall face again if the railways are returned to their present owners to be operated under present laws. The line of cleavage in the rail-

way controversy goes back to the contract between the States and investors contained in the charters authorizing the construction, ownership and operation of the railways, and had its origin in the failure of both the public and the investors to appreciate that what they were seeking to do was an impossible thing. The corporations were given the right to own, to operate, and to fix the tolls which should be paid by shippers and passengers: language could not be more clear than that by which investors were induced to believe—and continued to believe until as late as 1875—that the power of the corporation to fix tolls was absolute.

And even when the Supreme Court of the United States held that such power was within the control of the State, four out of nine Justices of that Court dissented and continued to assert, that the plain intent of the language used in the grants could not be tortured into a contrary meaning. And though to-day it seems incredible that our people ever intended to give a private corporation the uncontrolled power to make its own rates, the fact is this power was given.

Anyone doubting the latter assertion is referred to the State Charters granted before 1870, and to any of the Pacific Railroad Charters granted by Congress. And, if after reading such charters he still doubts the public understanding at that time, let him truthfully answer these questions: Would investors in 1850, or, in 1870, have subscribed for railway shares, or bonds, had they been told, or had they suspected, that the time would come when the Government would compel those corporations to provide a service at a cost in excess of what might be collected therefor? Is it imaginable, that the savings of those days would have poured into railway treasuries had investors known that railway charters would be so construed as to enable employees to fix their own wages, and to permit shippers to make their own rates?

But it may be said, money *was* invested in railway securities after the rendition of the decisions of the Supreme Court to which reference has been made. It was: but from that time until many years thereafter, the new money invested was subscribed either to protect already existing interests, or, to

speculate in ventures which were induced by immense subsidies and share manipulations. Securities were issued whose face values were from two to three times the amounts paid for them in cash. These were the days when railway capital was diluted with water, and when speculators and not investors furnished most of the new money. Such unsound financing came to its end in the panic of 1893, not causing it, and yet not being altogether without blame for it: and with this end, terminated the second epoch in railway development, the first having ended coincidentally with the panic of 1873.

About this time a decision of the Supreme Court was announced which held that railway rates made by the State can not be enforced unless they allow the corporation the cost of service plus some profit: the investor was to be permitted to earn some profit, but whether one per cent. or ten was not stated. The middle of the road political leader was halted. Confiscation under the guise of regulation was rendered impossible, and, the interest of investors in railway shares and bonds revived. The railway cor-

porations gained new strength. There began a third—and perhaps the last—epoch of railway ownership under private direction.

For a while popular leaders stood silent, apparently recognizing the justice of decisions favorable to investors. But slowly, and insidiously, there was spread throughout the land this up to date propaganda: the courts had decided that no schedule of rates made by the State could stand which would reduce net income below a level admitting of some profit; but, in order to obtain relief against rates so established the courts also held it is necessary for the carrier to show that an order complained of would prevent that result—that is to say, the burden of proving the confiscation was placed upon the carrier. Thereupon rate reductions were sought and obtained that did not confiscate; radical reductions were no longer asked for and a margin of income was always left, but a margin so niggardly that the security left was meagre. It soon became obvious to investors that the corporations were always to have their rates reduced whenever their net income showed a substantial surplus, and

might any day—indeed must sometime—pass below the line of safety which is the boundary of all sound credit.

Thus, the State denied the right to make confiscatory rates proceeded with judicial sanction to control the net income of the corporations: if it could not pronounce with absoluteness what the rates should be, it could and did say what the net income should be, and thenceforth the Governmental policy became one of railway income fixing instead of railway rate fixing. When it was seen, as fast as incomes were increased by economies and growth of traffic, that such increases were to be immediately used not only as a justification, but as an argument for rate reductions, no motive remained for greater efficiency, and capital became frightened by the gradually lessening and often disappearing margin of safety for investors in all railway securities.

The culmination of the financial difficulties of railway corporations was reached when employees demanded higher wages, and materials began to increase in cost. None of the corporations could pay these

additional charges and avert bankruptcy unless permitted to increase rates: yet, their requests for such increases met with opposition, were long debated, and, when not denied were allowed grudgingly. Under such conditions it was inevitable that many corporations suffered their properties to deteriorate and failed entirely to acquire such additional tracks, terminals, shops and equipment as would have been commensurate with the normal growth of traffic: these corporations failed because lack of credit left them powerless to do otherwise. Other corporations, which despite the restraints put upon them still enjoyed prosperity, failed because their directors saw added peril in enlarging corporate debts at a time when corporate incomes were fast diminishing. And, those corporations which could, and did provide adequate facilities were all too few to prevent the transportation collapse witnessed in December, 1917. Our National transportation routes as then constituted, were like chains in which the weak links gave way.

The condition of the railways in Decem-

ber, 1917, as a result of the policies we have traced may be summarized briefly thus: some lacked facilities and were verging on a complete physical collapse, and all were facing financial disaster, for if rates could not be increased none could survive. The railways were being slowly stifled—and by the people for whose welfare they were created and existed. No relief was in sight, for the public would not desist from its clamorous insistence for rate reductions, and more costly service, much less assent to rate increases, while the attitude of dissatisfied labor grew threatening. The railway policy of the United States had failed: the policy of ownership and responsibility wholly private, and of control wholly public—and irresponsible.

We have seen, that the disappointments of investors and the dissatisfaction of the public resulting from the failure we have observed had their origin in the railway charters; that these charters were granted in ignorance of what is now so obvious, that a public institution was being created—not a private business—an institution as essential

to national growth and defense as the Army, the Navy or the Treasury—more necessary than the Post Office—and, that the construction of the railways was a public work, and instead of their being according to the legal fiction “private property affected by a public interest” the actualities of their existence represent public highways affected by a capitalistic interest. Blind to the real nature of the enterprise, it is not strange that investors and statesmen did not foresee that the making of rates for a public utility, is a legislative function and cannot become a property right under our form of government: the legislature may delegate the function of rate-making to a Commission, or to a private corporation, but it cannot part with it and may resume it at any time. Then was the time to have done what must be done now. It should have been clearly stated that the Government is the ultimate and therefore the real rate-maker, and as this must of necessity at times result in public use without compensation of the private capital in the railways, some assurances should have been given the investor

that when non-compensatory rates were made he would, nevertheless, receive a fair return upon his investment. It might have been arranged that rates should never be so reduced as to prevent an income equivalent to a fixed minimum return on the investment, or, the Government could have guaranteed such minimum: had either been done these private corporations would not have been found unprovided for the demands of war in 1917, or, for the demands of peace in 1919.

II

THE PREDICAMENT OF 1919

THERE are two reasons why the Government should not return the railways to their owners to be operated under existing laws, one reason potent, because it is moral, and the other imperative, because it is vital.

For the Government to return the railways either now—or “twenty-one months after peace is declared”—would be a wrong inflicting great injustice and causing serious injury to many corporations: to many, though not to all corporations, because strange though it may seem, the action of the Government which would injure some might actually benefit others. The explanation of this paradox is found in the abrogation by the Government of the competition which obtained under private ownership.

Formerly each corporation vied with its rivals in a contest for traffic and sought to

obtain business by widely advertising its routes and in strenuous efforts to provide a superior service; and as a consequence of such rivalry passengers would often take a longer route because of special advantages—perhaps meals served thereon were better or the trains handled with greater regard for the passengers comfort and safety—and shippers would frequently give all their business to the longer line because they found that in actual practice its deliveries were more prompt, or its freight was more carefully carried, or its patrons were shown more courteous consideration: thereby names of the various routes and the good-will so created became assets of intrinsic value, assets which to a very great extent have been destroyed. When the Government seized the railways its Administration adopted as a fundamental rule of transport that regardless of how traffic had moved in the past, it must henceforth be routed over the line that could handle it most economically in the judgment of an official given absolute power to discriminate between lines formerly competitive. Such didacticism of the Fed-

eral Railroad Administration has possibly resulted in savings to the Government, but the consequence to the corporations has been as if in an industry all plants were amalgamated, all trade-marks obliterated, and all mills put under one manager empowered to manufacture where he elected, to fill orders as he determined, to shift employees and managers and to discriminate between the various plants as to which should be improved and geared up in production and which slowed down.

Consequently, if now the railways should be returned to their former owners, some would find their business greatly increased because of the discrimination in their favor by the Federal supervisors of traffic; while the unlucky losers of business so diverted would face ruinous conditions: and, generally, the lines which have been favored by the Federal Administration belong to prosperous corporations, and those which have been discriminated against are the property of the impoverished. One may concede that the Government officials acted wisely from an economical standpoint, and

that their actions were amply justified by the exigencies of war, but the fact remains that the Government has destroyed property of enormous value. Furthermore, not only has the Government destroyed the good-will and good name of many corporations, but it has also undermined their credit: for who will loan money to be used in improving for competitive purposes railways that have been rejected by the Government as unworthy of development?

But there is a second, and much stronger reason than one based on individual rights, why the railways in their existing state should not be returned to their owners without drastic changes in present laws, and in the public policy, which obtained until December, 1917. The Government may disregard individual rights to achieve supposed public good: but, here we see the harm that might be done the public would be infinitely greater than that which might be done individuals. Those who think it possible for us to return to pre-war conditions respecting the railways are singularly shortsighted. In December, 1917, it was

recognized that railway facilities had become inadequate; and, it was also plain that the railway corporations would shortly become bankrupt if the increases in wages demanded by labor—and since granted—were to be paid and the railways not permitted to increase in ratio their tariffs: therefore the Government took over the railways not only to prevent their physical collapse, but to meet a financial crisis. The catastrophe thus avoided was not impending because of the war, but because many of the railways were without adequate facilities, and lacked the wherewithal to acquire them; for the credit of many corporations had been greatly weakened by a public policy requiring them to perform a public service and denying them the right to collect the full cost of the service. Investors refused to buy the shares, or bonds, of such corporations, and, as a consequence, the corporations found themselves not only facing maturing obligations which could not be funded, but without the means needed to supply the additional cars, locomotives, tracks and terminals required by shippers obliged to use their railways. Such

corporations have now no greater facilities than they had in 1917, and their credit has been further weakened, if not destroyed; therefore, a return to the old condition would bring about a calamity avoided only by the Government's radical action: our commerce would be stunted at a time when expansion is essential to national progress, and financial depression would occur when public confidence most needs support.

It may be said that existing facilities are now adequate, which is true, but true because all the lines are used and operated as a unit and the surplus of cars, shops, tracks and terminals owned by some corporations are being employed to make good the deficiencies of other companies. Returning shops, tracks and terminals to their owners will require a return to such owners of their cars and equipment also, and be followed, whenever business is restored to its normal basis, by recurrence of the congestion—the intolerable congestion—of 1917.

But as bad as the railway situation was in December, 1917, it was nevertheless much better than it was destined to become; be-

cause, there were still at that time many corporations which possessed facilities and credit equal to all their requirements: shippers in certain parts of the country were yet well served, and consequently only a partial paralysis of commerce had taken place. But those who had to do with the financial phase of the transportation situation, as well as its physical needs, realized, as fortunately did those charged with the administration of the Nation's finances, that back of the chaotic condition, produced because of the inability of some of the corporations to perform their public service, loomed the great danger that all of the railroad corporations might become bankrupt and would not remain solvent if the demands made by the employees for advances in wages were granted and permission to increase rates correspondingly was denied by the Interstate Commerce Commission. Since then wages have been increased, but the increases in rates have not been sufficient, apparently, to leave many of the lines with income sufficient to induce investors to buy either the shares or bonds of the corporations owning

such lines and to whom the railways must be returned under the present public policy. It is certain that wages will not be reduced until there is a corresponding decrease in the cost of living. On the other hand, it is hardly reasonable to expect that the public will endure further increases in rates, or continue content with the character of service it has willingly accepted in patriotic silence during the war.

Therefore, to return to the conditions of 1917 means to confront not only all of the evils then threatening, but to face a general demoralization in the financial world, resulting not only from the inability of many corporations now regarded as prosperous to meet the demands made upon them for improvements, but from the complete destruction of billions of capital now widely distributed. From that there would be but one result: for, the paralysis of commerce and, the enormous losses to investor would bring a preemptory demand for the resumption of governmental control. Do even those who favor Government ownership, desire its achievement at a cost so ruinous, or under conditions so disastrous?

III

THE IMPORTANCE OF COMPETITION

THE writer is opposed to Government Ownership of railways; but, not because he believes rates would be lower under private ownership: on the contrary he knows that when the railways were privately operated a man always got more for his money in buying a postage stamp than in spending it for a railway ticket. Nor is the writer of those conservative minded citizens fearing Government ownership because of presumed evil influence of such ownership on the Government: between the scandals that are feared under one system, and those which have occurred under the other there is perhaps small choice. Nevertheless, while from the standpoint of economy alone, there is slight difference between investing \$50,000 in an unneeded railway station and donating a like sum to a political party, there is the moral distinction, over-fine

though it may seem to some, between using votes to get higher wages and lower rates, and using dollars to get votes.

The writer favors private ownership not only because he distrusts monopolies, but because he is convinced that a growing country needs the enlivening influence of competition; and, while he realizes that unrestrained competition, like any excess, hampers development, he is sure that monopoly cramps growth. Would we now be in the front rank of nations but for the development induced by competition between carriers? And is it not to be feared, that we cannot maintain our advanced position if we destroy the spirit of rivalry which sustained by the desire of triumph and dominance, and intensified by the promise of gain animates business competition?

If corporate ownership is considered as a means of restoring this competition between railways, it is necessary to put aside all of the suggestions made that relate to "regional railway" corporations: for if every region is to be served by a monopoly it were much better that such monopoly be governmental

than private, because in one the citizen has a voice and in the other he has none.

While no one, perhaps, can plan the manner of private ownership that will supply what is desirable in the competitive system, avoid the evils which made ineffective the former railway policy and satisfy public demands, these are the fundamentals all should consider:

The comfort, safety and convenience of passengers are matters of no small concern; and, the expedition of freights and the charges therefor are not negligible affairs; but, for the Nation to progress, something more than a sufficient supply of cars, locomotives, tracks and terminals and reasonable rates is required. The success of enterprise and industry depends largely upon the activities of railway officials interested not only in providing the service required but in making rates that will render new undertakings profitable. Our vast interior has been developed with corresponding advantage to seaboard regions because railway officials have adjusted rates with reference to the competition of markets. The line with the

terminal on the Great Lakes, the one extending to a Gulf port and that touching the Pacific Ocean have in their rivalry opened three grain routes from the Mississippi Valley to the four quarters of the world. Every carrier has been made to realize that the sure way for it to increase its revenues is to increase production upon its own rails, and, for such purpose it has not only made rates and given service that would enable existing industries to flourish, but has offered encouragements to new ones. Where the development of a locality demanded reductions in rates on fuel, or on raw materials, these have been readily granted. It is because the merchant and the railway official have found mutual profit in adjusting rates to meet the demands of trade that grain grown in Montana competes with that harvested in Pennsylvania; that fruit grown in California is sold in France; that coal mined in Virginia is consumed on the prairies of Alberta—a coal producing province—and that nearly every town has its industries. Commerce expands with over-production and would shrink with carefully measured out-

puts based on assured demands. If there were no excess transportation facilities in view, no producer would incur the hazard of producing what was not already in demand. A reasonable excess of supplies over known demands and a reasonable excess of transport facilities over existing uses are the roots of all commercial expansion. Although the manufacturer who over-produces hazards grave risks and the carrier who over-builds courts disaster, nevertheless, there never has been a great merchant, or a great builder, who has not taken these chances: and, neither has there ever been a great country without such merchants and builders. Every reduction in railway rates made voluntarily—and most reductions were voluntary—was made because an increase in the net income for the carrier was the result expected by the railway official who made it, and his motive was keener grasp of his position and the better standing with his principal that such profit might obtain for him.

If we have but one railway, neither the new industry is encouraged nor the old one sustained: for both must measure to the

gauge prescribed by the monopoly. And while corporations possessing a monopoly sometimes seek zealously new sources of profit, their tendency is restful drifting toward a moribund desuetude: genius may create a monopoly, but genius is not hereditary, nor are geniuses ordinarily successive in organizations. And when the owner of a monopoly becomes satisfied with what he has acquired and achieved, his agents lose their chief incentive for betterment. When a carrier knows that a new undertaking can settle on his line only, and can ship only over one of his routes, the danger is more than probable that the carrier will not only become a hindrance to enterprise, but an obstacle to national growth: unspurred by competition, transportation, industry and trade become laggards and the people dependent upon them ossify.

IV

THE TRIANGLE—LABOR, CAPITAL AND COMMERCE

THE State in its efforts to avoid the evils of monopoly should not forget the excesses of competition, and provision should be made that only those facilities will be created for which a use exists, or can be reasonably hoped for. Therefore, the new policy should not only protect the public against the intrusion in the future of the wasteful practices of the past, but induce a correction of remediable mistakes. In the period of sharp contests between carriers and public elsewhere reviewed, various laws were enacted and enforced which not only prevented the amalgamation of railways, but every manner of agreement between their owners which restrained commerce. Such laws must be modified, because many railways were built for which no need existed, or future use will appear. Had the law per-

mitted, the prosperous corporations could have bettered the situation by absorbing many railways which had become a burden to their owners and to the public, or else, by entering into working arrangements, might have relieved the necessities of the superfluous lines. Allowed this permission, the railway without excuse for existence could have passed into strong hands, and the railway able to stand alone would have maintained its independence.

However, we are more concerned with the future regulation of such affairs than with the consequences of the policies of the past, for it is anticipated a billion dollars annually will be required henceforth to enable the railways to keep abreast of commerce. Are these vast sums to be expended in developing equally the most fit of the railways and those least adaptable? If permitted to agree, the carriers will arrange for a common use of the superior railways, but if prevented they will continue to use and to improve for through traffic lines that should be used and improved only to the extent justified by the bulk of their local business.

f

Every unnecessary track or terminal is an unnecessary charge on our trade, and agreements between carriers that are now forbidden must be authorized, else private ownership will start anew under one of the handicaps that caused it to fail in the past.

Therefore, the writer suggests as the first principle of a reconstructed railway policy that:

A designated agency of the National Government shall be given the power to determine what railways may be amalgamated, and what agreements between competitors shall be authorized, in order that sane competition may be encouraged, unreasonable competition prevented and the joint use of facilities increased.

The public demands of whoever may operate the railways that facilities shall be adequate, that service shall be satisfactory and that rates shall be low. Can private railway corporations meet these requirements? The answer is: They cannot without assistance from the Government? In order to provide adequate facilities corporate credits must be continuous: without

such credit one will witness in the future, as in the past, years of idleness in car and locomotive shops when prices are low, materials cheap and labor unemployed. And corporate credits should be not only uninterrupted, they should be unlimited, for the nation ought never again to be unprepared for either peace, or war, because of a lack of transport facilities: such credit can be secured in only one way,—the Government must supply it, and be compensated therefor, of course.

A return of the railways to private ownership will end disastrously for the country, no matter how much liberty of action is given the owners, unless some are financially assisted by the Government. All corporations must provide facilities, and if subject to such compulsion they should never lack credit: a matter of this vital importance cannot be left to market conditions, to the fate of future legislation, or to the caprice of bankers. Those corporations having independent credit ought to be left free to obtain new capital through their own mediums; but companies without such credit

should be able to issue shares, debentures, or bonds guaranteed by the Federal Government in return for a stipulated participation in the net income of the corporation. The consideration of details has no place in this discussion, which aims to treat of principles which would be more confused, than elucidated, by such consideration: but it may be added, that the Government could never be compelled to loan its credit, and that each case would be dealt with according to its circumstances and determined by the exigencies of the situation, the financial condition of the corporation seeking assistance, and the purposes for which the new capital would be asked. As such assistance would be withheld properly from corporations not wholly amenable to the Federal Government, the second principle of our reconstructed railway policy would be:

Federal corporations may be created with power to buy, and to sell, railways, parts of railways, shares and bonds subject only to such limitations as a designated agency of the Government may impose: and such corporations shall be privileged to accept from

the National Government subscriptions to shares and loans of money, or of credit, upon such terms as the Government may offer.

As the ultimate determination of all questions respecting rates, or services, must be retained by the Nation, the agency that is to determine what consolidations, purchases and agreements will be permitted, and what financial assistance will be extended may be given also, justly, the power to make rates and to direct improvements in services and facilities. One restraint, only, should be laid on such reserved power: no order should be valid that would deprive a Federal corporation of the opportunity to gain a minimum return on the capital fixed in its charter, or which would deprive a State corporation of its Constitutional rights; but, summary court proceedings should be provided for the determination of every controversy based on alleged denials of such opportunity,—or of such rights: for, we ought not to retrograde to the earlier state of things with its confusion and intolerable delays. Rate orders and orders for additional facilities, or better service, should be

peremptory except in cases where the enforcement of such orders would amount to a denial of a right expressly given by charter, or existing under the Constitution: and alleged violations of such rights should be heard summarily. Consequently, we would have this, as the third principle of our new policy:

A designated agency of the Federal Government shall have the power to fix all interstate rates, and to require that additional facilities and services be supplied, subject only to the limitation that no order shall be binding if thereby a corporation would be denied the opportunity to earn a reasonable return on capital invested which capital and return shall be fixed in the charter of Federal corporations, and shall be ascertained in the case of State corporations by appropriate methods; and, a court procedure shall be instituted for the summary determination of all controversies respecting the exercise of such power.

The agency entrusted with all the other powers we have reviewed should not only be the rate controller, but should be, also, a

board of arbitration for the consideration of all disputes between the corporations and their employees. It is assumed that the grants of government aid through subscriptions, loans, or guaranties, would be on condition that the Government would participate in all profits exceeding an agreed minimum fixed for the investor's security. As a consequence of the various delegations of power that are here suggested, one body could make the adjustments required to properly balance public and private rights: for whenever wages were increased by an award of arbitration, or additional obligations were imposed upon the carriers by mandates, rates could be increased proportionately; and, as the Government would have to come to the relief of corporations deprived of individual credit, and would be at all times interested in the profits of corporations assisted by it, the effect of a particular rate asked by the public, or of a particular wage demanded by labor, could be surveyed in all its consequences from the viewpoint of authority.

The railway problem is a triangular one,

involving the conflicting desires of laborer, capitalist and shipper, and it will be the sooner solved when all of these interests consent to an arrangement whereby each shall have an equal place at the counsel table where the problem is to be solved; therefore, we should have for our fourth principle the following:

The Government agency charged with the duty of fixing rates, acting as arbitrator in labor disputes, determining what additional facilities and services may be called for, and prescribing what agreements may be made between competitors, shall consist of men selected from the ranks of capital, labor and shippers, respectively, and who will be appointed and retained subject to civil service rules.

The agency suggested would require many divisions, boards and bureaus to which, and in its own constitution, might be assigned the members of the present Commission, a body whose fault is that it has been responsible for the failure of the old policy without having had the power to render such policy effective. Under the new

order suggested, we would see the Government sometimes a holder, and frequently a guarantor of railway securities with a contingent interest in the profits of many corporations; we would protect all investors against confiscation; and, we would provide a fair tribunal for the hearing of the demands of labor: and shippers, too, would obtain not only the benefit of competitive services, but be assured of a Governmental control of rates as broad as in fairness should be exacted. Of course, strikes would continue to occur, rates would still be assailed, and services would be denounced; while investors might lose if the country suffered a financial cataclysm: but we are not expecting a blissful millenium, only seeking something better than has been.

The writer anticipates that of those who may follow him thus far some will ask: Why are not the details set forth for the plan proposed? To such readers the writer would add: it is confusing to discuss details in advance of the settlement of principles, and, when the latter are determined, the subject will be in the hands of the men most

competent to settle the particulars, for the writer is among those who yet believe the people's chosen representatives can be trusted not only to voice the wishes of the people, but to safeguard the interests of the public.

—END

318

HE 51
11-5

395828

UNIVERSITY OF CALIFORNIA LIBRARY

